

- "(ii) may make contributions to an account which is established for the purpose of meeting the qualified higher education expenses of the designated beneficiary of the account, and
- "(B) which meets the other requirements of this subsection.
- "(2) CASH CONTRIBUTIONS.—A program shall not be treated as a qualified State tuition program unless it provides that purchases or contributions may only be made in cash.
- "(3) REFUNDS.—A program shall not be treated as a qualified State tuition program unless it imposes a more than de minimis penalty on any refund of earnings from the account which are not—
- "(A) used for qualified higher education expenses of the designated beneficiary,
- "(B) made on account of the death or disability of the designated beneficiary, or
- "(C) made on account of a scholarship (or allowance or payment described in section 135(d)(1)(B) or (C)) received by the designated beneficiary to the extent the amount of the refund does not exceed the amount of the scholarship, allowance, or payment.
- "(4) SEPARATE ACCOUNTING.—A program shall not be treated as a qualified State tuition program unless it provides separate accounting for each designated beneficiary.
- "(5) NO INVESTMENT DIRECTION.—A program shall not be treated as a qualified State tuition program unless it provides that any contributor to, or designated beneficiary under, such program may not direct the investment of any contributions to the program (or any earnings thereon).
- "(6) NO PLEDGING OF INTEREST AS SECURITY.—A program shall not be treated as a qualified State tuition program if it allows any interest in the program or any portion thereof to be used as security for a loan.
- "(7) PROHIBITION ON EXCESS CONTRIBUTIONS.—A program shall not be treated as a qualified State tuition program unless it provides adequate safeguards to prevent contributions on behalf of a designated beneficiary in excess of those necessary to provide for the qualified higher education expenses of the

beneficiary.

"(c) TAX TREATMENT OF DESIGNATED
BENEFICIARIES AND
CONTRIBUTORS.—

"(1) IN GENERAL.—Except as otherwise provided in this
subsection, no amount shall be includible in gross income of—

"(A) a designated beneficiary under a qualified State
tuition program, or

"(B) a contributor to such program on behalf of a
designated beneficiary.

with respect to any distribution or earnings
under such program.

"(2) CONTRIBUTIONS.—In no event shall a
contribution
to a qualified State tuition program on behalf of a
designated
beneficiary be treated as a taxable gift for
purposes of chapter

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"(3) DISTRIBUTIONS.—

"(A) IN GENERAL.—Any distribution under a qualified
State tuition program shall be includible in the gross